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If you are in doubt as to any aspect of this circular, you should consult a stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your Shares in **Founder Holdings Limited**, you should at once hand this circular and the accompanying form of proxy to the purchaser or other transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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FOUNDER HOLDINGS LIMITED
方正控股有限公司 *

(Incorporated in Bermuda with limited liability)

(Stock Code: 00418)

**ADVANCE TO AN ENTITY,
MAJOR TRANSACTION,
CONTINUING CONNECTED TRANSACTIONS –
2019 ENTRUSTED LOAN MASTER AGREEMENT
AND
NOTICE OF SGM**

**Independent Financial Adviser
to the Independent Board Committee and the Independent Shareholders**

AMASSE CAPITAL
寶 積 資 本

A letter from the Board of Founder Holdings Limited is set out on pages 4 to 15 of this circular. A letter from the Independent Board Committee is set out on pages 16 to 17 of this circular. A letter from the Independent Financial Adviser containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 18 to 31 of this circular.

A notice convening the special general meeting to be held at 11:30 a.m. on Thursday, 12 December 2019 at Unit 1408, 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong is set out on pages 38 to 39 of this circular. Whether or not you are able to attend the special general meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible to the principal place of business of Founder Holdings Limited at Unit 1408, 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong and in any event not later than 48 hours before the time of the special general meeting or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the special general meeting should you so wish.

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DEFINITIONS

In this circular, the following expressions shall have the following meanings unless the context requires otherwise:

“2016 Entrusted Loan Master Agreement”	the entrusted loan master agreement dated 25 October 2016 entered into between the Company and Peking Founder, pursuant to which the Group would, subject to certain conditions, provide short-term loans through a financial institution (designated by the parties and being an independent third party to the Company and the connected persons) to Peking Founder Group;
“2019 Entrusted Loan Master Agreement”	the entrusted loan master agreement dated 30 October 2019 entered into between the Company and Peking Founder, pursuant to which the Group would, subject to certain conditions, provide short-term loans through a financial institution (to be designated by the parties and being an independent third party to the Company and the connected persons) to Peking Founder Group;
“Announcement”	the announcement of the Company dated 30 October 2019 in relation to, among other things, the 2019 Entrusted Loan Master Agreement;
“associate(s)”	has the meaning ascribed to it under the Listing Rules;
“Board”	the board of Directors;
“Business Day(s)”	means day(s) (excluding a Saturday and Sunday) on which banks generally are open for business in Hong Kong;
“Company”	Founder Holdings Limited, a company incorporated in Bermuda with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange (Stock Code: 00418);
“connected person”	has the meaning ascribed to it in the Listing Rules;
“Directors”	directors of the Company;
“Founder Electronics”	北京北大方正电子有限公司 (Beijing Founder Electronics Co., Ltd.*), a company incorporated in the PRC and a wholly-owned subsidiary of the Company which is principally engaged in software development and systems integration business;

DEFINITIONS

“Founder Information”	北大方正信息產業集團有限公司 (Peking University Founder Information Industry Group Co., Ltd.*), a company incorporated in the PRC with limited liability and a controlling shareholder of the Company which directly held approximately 30.60% of the issued share capital of the Company as at the Latest Practicable Date;
“Group”	the Company and its subsidiaries;
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong;
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China;
“Independent Board Committee”	the independent board committee comprising the independent non-executive Directors;
“Independent Financial Adviser” or “Amasse Capital”	Amasse Capital Limited, a licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities as defined under the SFO, being the independent financial adviser to the Independent Board Committee and the Independent Shareholders in relation to the transactions contemplated under the 2019 Entrusted Loan Master Agreement;
“Independent Shareholders”	Shareholders other than Founder Information and its associates;
“Latest Practicable Date”	22 November 2019, being the latest practicable date prior to the printing of this circular for ascertaining certain information for inclusion in this circular;
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited;
“PBOC”	the People’s Bank of China;
“Peking Founder”	北大方正集團有限公司 (Peking University Founder Group Company Limited*), a company incorporated in the PRC with limited liability and a controlling shareholder of the Company which indirectly held approximately 30.60% of the issued share capital of the Company as at the Latest Practicable Date;
“Peking Founder Group”	Peking Founder and its subsidiaries;
“PRC”	the People’s Republic of China;

DEFINITIONS

“Proposed Annual Caps”	the proposed annual caps for each of the three years ending 31 December 2022 for the entrusted loans under the 2019 Entrusted Loan Master Agreement;
“RMB”	Renminbi, the lawful currency of the PRC;
“SGM”	the special general meeting of the Company to be convened and held for the Independent Shareholders to consider and if thought fit, approve (among other things), the 2019 Entrusted Loan Master Agreement and the Proposed Annual Caps;
“Shareholder(s)”	the holders of Shares;
“Shares”	ordinary shares of HK\$0.10 each in the share capital of the Company;
“Stock Exchange”	The Stock Exchange of Hong Kong Limited;
“subsidiary”	has the meaning ascribed to it under the Listing Rules; and
“%”	percentage

For illustrative purpose only, HK\$ is converted into RMB at an exchange rate of RMB1 = HK\$1.11 in this circular.

** For identification purposes only*

LETTER FROM THE BOARD



FOUNDER HOLDINGS LIMITED
方正控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 00418)

Executive Directors:

Mr Cheung Shuen Lung (*Chairman*)
Mr Shao Xing (*President*)
Professor Xiao Jian Guo
Ms Zuo Jin
Mr Hu Bin
Ms Liao Hang

Independent Non-executive Directors:

Mr Li Fat Chung
Ms Wong Lam Kit Yee
Mr Chan Chung Kik, Lewis

Registered office:

Victoria Place, 5th Floor
31 Victoria Street
Hamilton HM 10
Bermuda

*Head office and principal place
of business in Hong Kong:*

Unit 1408, 14th Floor
Cable TV Tower
9 Hoi Shing Road
Tsuen Wan
New Territories
Hong Kong

26 November 2019

To the Shareholders,

Dear Sir or Madam,

**ADVANCE TO AN ENTITY,
MAJOR TRANSACTION,
CONTINUING CONNECTED TRANSACTIONS –
2019 ENTRUSTED LOAN MASTER AGREEMENT
AND
NOTICE OF SGM**

INTRODUCTION

Reference is made to the Announcement in relation to, among other things, the 2019 Entrusted Loan Master Agreement.

The purposes of this circular are to provide you with, among other things, (1) further information relating to the details of the 2019 Entrusted Loan Master Agreement and the Proposed Annual Caps; (2) a letter of advice from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders; (3) the recommendation of the Independent Board Committee to the Independent Shareholders; and (4) a notice of the SGM.

* *For identification purposes only*

LETTER FROM THE BOARD

2019 ENTRUSTED LOAN MASTER AGREEMENT

Date: 30 October 2019

Parties: The Company, as the lender; and
Peking Founder, as the borrower

The Company previously entered into the 2016 Entrusted Loan Master Agreement which will expire on 31 December 2019. The Company expects to continue such entrusted loan arrangement with Peking Founder and has entered into the 2019 Entrusted Loan Master Agreement with Peking Founder pursuant to which the Group would provide, subject to certain conditions, short-term loans through a financial institution (to be designated by the parties and being an independent third party to the Company and its connected persons) to Peking Founder Group. Such loans will be provided by Founder Electronics, a wholly-owned subsidiary of the Company, and unsecured and interest-bearing at the prevailing benchmark RMB lending interest rate for six-month loans offered by the PBOC plus 15% of such rate. For example, if the prevailing benchmark RMB lending interest rate as quoted by the PBOC is 5% per annum, the interest rate for the entrusted loans under the 2019 Entrusted Loan Master Agreement would be 5.75% per annum.

Peking Founder Group is a conglomerate, the member of which are engaged in various industries such as securities trading and brokerage and the information technology industry, among which industries are facing tightened credit environment in the PRC or require capital injection for development of new information technology products. Therefore, Peking Founder Group intends to borrow from the Group in the form of entrusted loans.

From the perspective of the Group, as further elaborated under “– Factors Taken into Account When Determining the Proposed Annual Caps” and “– Reasons for and Benefits of the 2019 Entrusted Loan Master Agreement” below, the Directors consider that since the interest rate under the 2019 Entrusted Loan Master Agreement is favorable to the Group (as further discussed below) and the credit risk of Peking Founder Group is relatively low based on its principal credit rating of “AAA”, sound financial performance in the past and its payment history of entrusted loans (as further discussed below), the provision of entrusted loans to Peking Founder Group is expected to generate a stable return for the idle surplus cash of the Group with a relatively low default risk and the 2019 Entrusted Loan Master Agreement will provide flexibility for the Group to utilize its surplus cash, and therefore is in the interests of the Group and the Shareholders as a whole.

In determining the interest rate for the entrusted loan, the Directors took into account that the average interest rate for the six months ended 30 June 2019 for the unsecured and short-term bank loans guaranteed by Peking Founder obtained by Founder Electronics (the subsidiary of the Company in the PRC which will provide entrusted loans to Peking Founder Group) for liquidity use, i.e. 4.90% per annum, is at a prevailing benchmark RMB lending interest rate for six-month loans offered by the PBOC plus 12.6% of such rate, which was less than the interest rate of the entrusted loans to be provided to Peking Founder Group under the 2019 Entrusted Loan Master Agreement. Therefore, the Directors considered that the interest rate under the 2019 Entrusted Loan Master Agreement is fair and reasonable. Under the 2019 Entrusted Loan Master Agreement, no collateral will be provided by Peking Founder to the Company. Separate entrusted loan agreements will be entered into among the Group, Peking Founder Group and the designated financial institution upon request by Peking Founder pursuant to the terms and conditions of the 2019 Entrusted Loan Master Agreement.

LETTER FROM THE BOARD

In assessing the default risk of Peking Founder Group, the management of the Group has reviewed the financial statements, repayment history, and credit report of Peking Founder Group. The unaudited consolidated net assets of Peking Founder Group as at 30 June 2019 were RMB64,463.4 million (as at 31 December 2018 (audited): RMB65,634.2 million). The audited consolidated turnover and net profit of Peking Founder Group for the year ended 31 December 2018 were RMB133,273.9 million (for the year ended 31 December 2017: RMB124,118.7 million) and RMB1,493.7 million (for the year ended 31 December 2017: RMB1,560.7 million) respectively. In addition, the entrusted loans provided to Peking Founder Group by the Group under the 2016 Entrusted Loan Master Agreement were all repaid in time without any defaults. Furthermore, the principal credit rating of Peking Founder is “AAA”, being the first class out of nine classes in this regard. In addition, given all the banking facilities obtained by Founder Electronics are unsecured and guaranteed by Peking Founder, it is reasonably expected that Peking Founder Group is unlikely to default under the 2019 Entrusted Loan Master Agreement as any default by Peking Founder Group of the entrusted loans may result in a default of the banking facilities of Founder Electronics that are guaranteed by Peking Founder. In addition, the Group may incur costs for engaging a third party expert to conduct due diligence on the value and legal title of collaterals to be provided by Peking Founder Group in relation to the entrusted loans if collaterals are required. Given the risk of default of Peking Founder Group is low, it would not be economically efficient for the Group to require collaterals from Peking Founder Group and therefore no collateral is required.

Period

The 2019 Entrusted Loan Master Agreement will, subject to the satisfaction of the conditions precedent set out below, become effective from 1 January 2020 and will expire on 31 December 2022.

Historical Figures and Annual Caps for the 2019 Entrusted Loan Master Agreement

The following table sets out (i) the historical figures of the average entrusted loans (representing the average balance of the principal and interests of the relevant entrusted loans) for each of the two years ended 31 December 2018 and six months ended 30 June 2019, (ii) historical annual caps under the 2016 Entrusted Loan Master Agreement for each of the two years ended 31 December 2018 and the year ending 31 December 2019, and (iii) the Proposed Annual Caps (representing the maximum balance of the principal and interests of the relevant entrusted loans) for each of the three years ending 31 December 2022:

	Year ended 31 December 2017 (RMB'000)	Year ended 31 December 2018 (RMB'000)	Six months ended 30 June 2019 (RMB'000)	Year ending 31 December 2019 (RMB'000)	Year ending 31 December 2020 (RMB'000)	Year ending 31 December 2021 (RMB'000)	Year ending 31 December 2022 (RMB'000)
Historical figures	375,871	376,619	370,000	N/A	N/A	N/A	N/A
Historical annual caps	405,000	405,000	N/A	405,000	N/A	N/A	N/A
Proposed annual caps	N/A	N/A	N/A	N/A	480,000	480,000	480,000

LETTER FROM THE BOARD

Factors Taken into Account When Determining the Proposed Annual Caps

As Founder Electronics, a wholly-owned subsidiary of the Company will provide entrusted loans to Peking Founder Group under the 2019 Entrusted Loan Master Agreement, and the Group's relevant financial position is more solid than that of Founder Electronics, the Proposed Annual Caps are mainly determined with reference to certain financial indicators of Founder Electronics, which are more stringent. In particular, the Proposed Annual Caps are mainly determined based on average of the aggregate (i) cash and bank balance available at each month end during the six months ended 30 June 2019 (net off with restricted deposits at banks) of Founder Electronics; (ii) its monthly net profit/loss during the six months ended 30 June 2019; and (iii) the entrusted loan receivable at each month end during the six months ended 30 June 2019 (collectively the "Combined Cash and Bank Balances").

The Combined Cash and Bank Balances is used as the primary factor to determine the Proposed Annual Caps because it is an estimate of the level of cash held by Founder Electronics which can be used for entrusted loans. The Combined Cash and Bank Balances increased from RMB589.0 million as at 31 December 2018 to RMB644.4 million as at 30 June 2019, so the cash and bank balance available for entrusted loans increased accordingly. The aggregate of cash and cash equivalents and entrusted loans receivables of the Group as at 30 June 2019 and 31 December 2018 were maintained at over HK\$900 million, which is also higher than the Proposed Annual Caps.

The Directors have also taken into account the historical bank borrowing of Founder Electronics to determine the Proposed Annual Caps although Founder Electronics has not utilized its bank borrowings for entrusted loans in the past. Commercial banks usually grant banking facilities based on the level of operations and past utilization of facilities of Founder Electronics. Therefore, in order to maintain the level of banking facilities granted by banks for future development, Founder Electronics partially utilized the banking facilities. As at 30 June 2019 and 31 December 2018, the differences between Founder Electronics' outstanding bank borrowings and the Combined Cash and Bank Balances were RMB503.6 million and RMB482.6 million respectively, which are higher than the Proposed Annual Caps as well.

After taking into account the financial positions of Founder Electronics and the Group as mentioned above, and the fund need of Peking Founder Group, the Proposed Annual Cap for the year ending 31 December 2020 is increased to RMB480 million. On the other hand, assuming that the macro-economic environment in the PRC will remain stable, it is expected that Founder Electronics' Combined Cash and Bank Balances from 2020 to 2022 will remain stable. Therefore, the Proposed Annual Caps remain at RMB480 million for each of the three years ending 31 December 2022. The percentage of the Proposed Annual Caps to the Combined Cash and Bank Balances as at 30 June 2019 was 74.5%.

Although the Group seeks for new investment opportunities in the software development and system integration business, the Group adopts prudent investment policy to avoid any significant loss. Currently, the Group has no concrete plan for material investments or capital assets. In addition, as further discussed in the "- Reasons for and Benefits of the 2019 Entrusted Loan Master Agreement" below, the Directors also compared those alternative utilization of the Combined Cash and Bank Balances with the option of entrusted loans to Peking Founder Group, and believed entering into the 2019 Entrusted Loan Master Agreement would be a better option to utilize such surplus fund given its stable return and low credit risk. Therefore, the percentage of the Proposed Annual Caps to the

LETTER FROM THE BOARD

Combined Cash and Bank Balances is set at a high level to provide the Group the flexibility to maximize the utilization of the surplus fund. Nevertheless, the Group will review alternative investment options from time to time and where the Directors and management consider that there is any better investment opportunity, the Group has the option not to continue to grant entrusted loans to Peking Founder Group under the 2019 Entrusted Loan Master Agreement and pursue other investment opportunities.

The Director also considered the historical entrusted loan transactions under the 2016 Entrusted Loan Master Agreement when determining the Proposed Annual Caps. During the period from 1 January 2017 to the Latest Practicable Date, there were 12 entrusted loans provided by the Group to Peking Founder Group, each with the amount ranging from RMB3 million to RMB370 million at interest rates ranging from 6.30% to 8.00% per annum and repayment period ranging from 3 to 6 months. The Proposed Annual Caps were also determined with reference to the average outstanding monthly entrusted loan receivables during the six months ended 30 June 2019 and the year ended 31 December 2018 which were RMB370 million and RMB322.5 million respectively.

Taken into account the steady performance and future business plan of Founder Electronics without significant change in its annual funding needs and the improvement of cash position of Founder Electronics as discussed above, the Directors consider that the Proposed Annual Caps are fair and reasonable, and in the interest of the Company and Shareholders as a whole.

Repayment Terms

The entrusted loans are repayable within six months from the date of drawing of the relevant entrusted loans unless otherwise agreed in the separate entrusted loan agreements. If Peking Founder Group fails to repay the outstanding amount under the relevant entrusted loan agreements, Peking Founder Group shall be liable to pay, on a daily basis, a default interest at the rate of 0.02% of the total outstanding loan amount, until all of the principal amount, the interests together with other applicable charges and/or fees are fully repaid.

Events of Default

If any of the following matters arise, the entrusted loans are repayable forthwith, unless otherwise waived by the Company in writing:

1. Peking Founder Group provides false balance sheets, profit and loss statements and other financial statements or provides such statements with material concealment, or refuses supervision on its use of entrusted loans;
2. The representations, warranties and undertakings made and given by Peking Founder under the 2019 Entrusted Loan Master Agreement or those made and given by the borrower pursuant to the relevant entrusted loan agreement proves to be untrue or misleading;
3. In the reasonable opinion of the Company based on relevant evidences, there has been a serious deterioration in the operating and financial position of Peking Founder or of the borrower under the relevant entrusted loan agreement;

LETTER FROM THE BOARD

4. Peking Founder or the borrower under the relevant entrusted loan agreement breaches of its obligations as borrower or guarantor under any other loan agreements;
5. Peking Founder or the borrower under the relevant entrusted loan agreement fails to make a repayment arrangement or debt restructuring plan to the satisfaction of the lender and trustee bank when it is undergoing a merger, split or share reform;
6. Peking Founder or the borrower under the relevant entrusted loan agreement is insolvent, dissolved, closed, revoked, suspended or deregistered;
7. Peking Founder ceases to be a controlling shareholder (as defined in the Listing Rules) of the Company; or
8. Peking Founder fails to perform its undertaking or other undertakings under the 2019 Entrusted Loan Master Agreement.

Conditions

The 2019 Entrusted Loan Master Agreement is conditional upon, among other things, the fulfillment of the following conditions:

1. the approval by the Board and the approval by the Independent Shareholders at the SGM of the 2019 Entrusted Loan Master Agreement pursuant to the Listing Rules and the Company's by-laws;
2. the board of directors of Peking Founder having approved the terms of the 2019 Entrusted Loan Master Agreement pursuant to the articles of association of Peking Founder; and
3. the approval by any authority that the Company or Peking Founder must obtain.

Reasons for and Benefits of the 2019 Entrusted Loan Master Agreement

Peking Founder Group is principally engaged in the securities trading and brokerage and the information technology industry, including software and system development for the publishing sector and various government bureaus and financial institutions and hardware manufacturing for personal computers, chips, circuit boards and other terminal equipment, and the healthcare and pharmaceutical industry, including hospitals, pharmaceuticals, logistics, equipment leasing and hospital management.

The Group is principally engaged in software development and the provision of systems integration services relating to the media and non-media industries including financial institutions, enterprises and government departments.

The level of banking facilities granted by commercial banks in the PRC are usually determined with reference to the borrower's operations, financial position and industry. Some of subsidiaries of Peking Founder are in the development stage or engaged in industries with restrictions on the level of bank borrowings and thus it is difficult for them to obtain financing directly from commercial banks. In addition, bank borrowings usually require the borrower to provide securities, which may impose

LETTER FROM THE BOARD

restrictions on the operation of the relevant members of Peking Founder Group. Therefore, Peking Founder Group has the needs to borrow from the Group.

On the other hand, as discussed above, the cashflow of Founder Electronics has been adequate and has surplus funds for investment. Founder Electronics utilized its banking facilities mainly to make it able to maintain the level of banking facilities that it can obtain from commercial banks in the future instead of financing the entrusted loans. As the banking facilities of Founder Electronics are unsecured, the banks in the PRC required the guarantee to be provided by its holding company. As the immediate holding company of Founder Electronics (which is a subsidiary of the Company) and the Company are incorporated in Hong Kong and Bermuda respectively, the PRC banks only accepted the guarantee provided by Peking Founder, which is a substantial shareholder of the Company and incorporated in the PRC.

As further elaborated below, the Directors consider that the transactions contemplated under the 2019 Entrusted Loan Master Agreement is a better option among several alternative investment options to utilize the surplus funds of Founder Electronics.

As at 30 June 2019, the Combined Cash and Bank Balances of Founder Electronics were RMB644.4 million. In order to fully utilize and enhance the monetary return of such surplus fund, the Company has made proposals for loan arrangements in the form of entrusted loans through a financial institution designated by the Group and Peking Founder Group. Before forming such proposal, the Board has discussed the advantages and disadvantages of other alternative utilities of its surplus Combined Cash and Bank Balances and compared those alternatives with the loans to Peking Founder Group, such as investments in wealth management products in the PRC, and has reached the conclusion that the market risk and credit risk of such alternatives are relatively high and the risk-adjusted return is relatively low.

Given that:

- i. the current interest rates on saving and term bank deposits of the Group are 0.3% and 1.1% per annum respectively, which are relatively low as compared with that of entrusted loans under the 2019 Entrusted Loan Master Agreement;
- ii. the potential interest rates of the entrusted loans without collaterals under the 2019 Entrusted Loan Master Agreement are higher than the potential interest rates of the entrusted loans with collateral; and
- iii. the market risk and credit risk of other wealth management products in the PRC are relatively high and the risk-adjusted returns are relatively low as compared with entrusted loans to Peking Founder Group,

the Company considers that the transactions contemplated under the 2019 Entrusted Loan Master Agreement will provide flexibility for the Group to utilize the Combined Cash and Bank Balances of Founder Electronics in the PRC.

As at the date of this circular, the transaction amounts of the continuing connected transactions under the 2016 Entrusted Loan Master Agreement have not exceeded the annual caps for the three years ending 31 December 2019 as set out in the 2016 Entrusted Loan Master Agreement.

LETTER FROM THE BOARD

The banking facilities of the Group in the PRC are unsecured and guaranteed by Peking Founder while the banking facilities of the Group in Hong Kong are secured by properties of the Group in Hong Kong. The entrusted loans contemplated under the 2019 Entrusted Loan Master Agreement are to be provided by the subsidiary of the Group in the PRC and its banking facilities in the PRC are unsecured and guaranteed by Peking Founder. In view of that (1) the Proposed Annual Caps account for 74.5% of the Combined Cash and Bank Balances as at 30 June 2019 available to the Group; (2) the financial position of the Group; (3) the entrusted loans provided to Peking Founder Group are all short-terms; and (4) the Group is not obliged to enter into any separate agreements with Peking Founder Group regarding entrusted loans and will consider several factors before granting entrusted loans to Peking Founder Group as discussed below under “– Internal Control Measures”, the Directors are of the view that the loan arrangement under the 2019 Entrusted Loan Master Agreement would not create significant liquidity risk to the Group.

Taking into account that (1) the repayment history of Peking Founder of the loans granted by the Group under the 2016 Entrusted Loan Master Agreement; (2) the credit rating of Peking Founder; (3) certain banking facilities of the subsidiary of the Company in the PRC are unsecured and guaranteed by Peking Founder; (4) the comparison of the potential interest rates of loans with collateral and without collateral; and (5) the strong business performance and financial position of Peking Founder, the Directors are of the view that the credit risk of Peking Founder is low, and providing entrusted loans without collateral is consistent with previous transactions under 2016 Entrusted Loan Master Agreement, will not cause substantial risks to the financial position of the Company, and therefore is on normal commercial terms and is in the interests of the Company and the Shareholders as a whole.

Internal Control Measures

Under the 2019 Entrusted Loan Master Agreement, the Group is not mandatory to provide entrusted loans to Peking Founder Group. Founder Electronics will consider its financial position, future use of cash, alternative investment options and review the financial position and repayment history of Peking Founder Group before providing the entrusted loans upon request by Peking Founder Group as further discussed below.

Firstly, the management of Founder Electronics reviews the cash flow forecast for the next month each week to ensure that there is sufficient cashflow on hand. Founder Electronics keeps 25% of the Combined Cash and Bank Balances as the minimum cash level which was approximately RMB161.1 million as at 30 June 2019. The average monthly cash and bank balances of Founder Electronics (after granting the entrusted loans) during the six months ended 30 June 2019 and year ended 31 December 2018 were approximately RMB281.6 million and RMB259.4 million respectively which are above the minimum cash level mentioned above.

Secondly, the management of Founder Electronics maintains the debt-to-asset ratio (i.e. total debts divided by total assets) of Founder Electronics below 50% which is comparable with that of other companies in the same or similar industries in the PRC although there is no specific limit on the amount of outstanding entrusted loan to the Group's financials. If the cash flow forecast for the next month of Founder Electronics shows that the granting of entrusted loans will increase the debt-to-asset ratio to over 50%, the management of Founder Electronics will not approve the granting of entrusted loans.

LETTER FROM THE BOARD

Thirdly, Founder Electronics considers other alternatives for utilizing the Combined Cash and Bank Balances from time to time, such as the interest rate of bank deposit and the risk-adjusted return of other wealth management products. In particular, before Founder Electronics enters into relevant agreements with Peking Founder Group according to the 2019 Entrusted Loan Master Agreement, the staff of treasury department of Founder Electronics will compare the prevailing interest rate of its bank loans to ensure the interest rate of entrusted loans to Peking Founder Group is higher than its own financing cost. Founder Electronics has not utilized its banking facilities for entrusted loans in the past and does not expect to utilize its banking facilities for entrusted loans for the 2019 Entrusted Loan Master Agreement. However, if Founder Electronics would have to finance the entrusted loans by utilizing its banking facilities (which is unlikely to happen), it will still be subject to the debt-to-asset ratio of 50% as discussed above and make sure that the return on the entrusted loans is higher than the financing cost of its outstanding bank borrowings.

Furthermore, the management of Founder Electronics will review the latest audited financial statements or management accounts of the relevant member of Peking Founder Group which is the borrower and the credit rating agency of Peking Founder before granting entrusted loans to such member, especially the net assets, net profits and cashflow therein, to determine the repayment ability of such member. The accounting staff of Founder Electronics will also collect public news (if any) about the borrower to check if there is any significant adverse change in the financial position of the borrower which is not notified by the borrower. As members of Peking Founder Group are in different industries, it is impractical to set a universal criterion for such determination and such determination can only be made on a case-by-case basis. The credit rating of Peking Founder will be updated every year and is public information. If the Group notices that the credit rating of Peking Founder is downgraded, the management will stop granting new entrusted loans to Peking Founder Group.

According to the 2019 Entrusted Loan Master Agreement, entrusted loans can only be used for current funding of Peking Founder Group. Under the separate entrusted loan agreement entered into among the lender, borrower and financial institution, both the financial institution and the lender have the right to monitor the usage of entrusted loans by the borrower. Founder Electronics will obtain the quarterly management accounts (including the cash flow statements) of the borrower to monitor the usage of entrusted loans.

Separate entrusted loan agreements will be approved before implementation and monitored by various internal departments of the Group, including but not limited to, the treasury department, accounting department and legal department of the Company and the management of Founder Electronics.

LISTING RULES IMPLICATIONS

As at the Latest Practicable Date, Peking Founder is a controlling shareholder of the Company indirectly holding approximately 30.60% of the issued share capital of the Company and thus a connected person of the Company for the purpose of the Listing Rules. Accordingly, the transactions contemplated under the 2019 Entrusted Loan Master Agreement will constitute continuing connected transactions for the Company pursuant to Chapter 14A of the Listing Rules.

Further, provision of the entrusted loans under the 2019 Entrusted Loan Master Agreement may also constitute (i) advance to an entity under Rule 13.13 of the Listing Rules, (ii) financial assistance

LETTER FROM THE BOARD

provided by the Company not in the ordinary and usual course of business and a major transaction under Chapter 14 of the Listing Rules.

Since one or more of the applicable percentage ratios pursuant to Rule 14.07 of the Listing Rules for the transactions contemplated under the 2019 Entrusted Loan Master Agreement exceed(s) 25%, the transactions contemplated under the 2019 Entrusted Loan Master Agreement are subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As Mr Cheung Shuen Lung and Professor Xiao Jian Guo are the directors of Peking Founder and therefore are deemed to have a material interest in the 2019 Entrusted Loan Master Agreement, Mr Cheung Shuen Lung and Professor Xiao Jian Guo have abstained from voting on the relevant Board's resolution approving the proposed transactions contemplated under the 2019 Entrusted Loan Master Agreement.

INFORMATION ABOUT THE COMPANY

The Company is an investment holding company. The Group is principally engaged in software development and systems integration.

INFORMATION ABOUT PEKING FOUNDER

Peking Founder is a controlling shareholder of the Company indirectly holding approximately 30.60% of the issued share capital of the Company. Peking Founder is principally engaged in the securities trading and brokerage and the information technology industry, including software and system development for the publishing sector, various government bureaus and financial institutions and hardware manufacturing for personal computers, chips, circuit boards and other terminal equipment, and the healthcare and pharmaceutical industry, including hospitals, pharmaceuticals, logistics, equipment leasing and hospital management. Peking University Assets Management Company Limited* (北大資產經營有限公司), which is principally engaged in the business in relation to the acceptance for entrusted operation and management of state-owned assets, technology promotion, technical services, technical consultation, incubation of high-tech enterprises, investment management and asset management in the PRC, is the ultimate beneficial owner of Peking Founder and held 70% of shareholding interests in Peking Founder as at the Latest Practicable Date. Beijing Zhaorun Investments Management Co. Ltd.* (北京招潤投資管理有限公司), which is principally engaged in the business in relation to the investment management and investment consultation in the PRC, held 30% of shareholding interests in Peking Founder as at the Latest Practicable Date.

SGM

A notice convening the SGM to be held at 11:30 a.m. on Thursday, 12 December 2019 at Unit 1408, 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong is set out on pages 38 to 39 of this circular for the purpose of considering and, if thought fit, passing the ordinary resolution in relation to the 2019 Entrusted Loan Master Agreement and the Proposed Annual Caps.

* For identification purposes only

LETTER FROM THE BOARD

The resolution in relation to the 2019 Entrusted Loan Master Agreement will be determined by the Independent Shareholders. Any shareholder with a material interest in the 2019 Entrusted Loan Master Agreement and his/her/its associates will abstain from voting on the relevant resolution. Accordingly, Founder Information, an associate of Peking Founder, which held 367,179,610 Shares (representing approximately 30.60% of total issued share capital of the Company) as at the Latest Practicable Date and is entitled to exercise control over the voting rights in respect of its shares, is required to abstain from voting with respect to the resolution for approving the 2019 Entrusted Loan Master Agreement and the Proposed Annual Caps.

A form of proxy for use at the SGM is enclosed with this circular. Whether or not you are able to attend the SGM, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same as soon as possible to the principal place of business of the Company at Unit 1408, 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong and in any event not less than 48 hours before the time scheduled for the holding of the SGM or any adjournments thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the SGM or any adjournments thereof should you so desire.

RECOMMENDATION

The Independent Board Committee has been established to advise the Independent Shareholders in connection with the terms of the transactions contemplated under the 2019 Entrusted Loan Master Agreement and the Proposed Annual Caps.

Amasse Capital has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on the 2019 Entrusted Loan Master Agreement and the Proposed Annual Caps.

The Independent Financial Adviser considers that, although not entered into in the ordinary and usual course of business of the Company, the 2019 Entrusted Loan Master Agreement has been entered into on normal commercial terms and that the terms of the 2019 Entrusted Loan Master Agreement and the Proposed Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned and in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Financial Adviser would advise the Independent Shareholders, as well as recommend the Independent Board Committee to advise the Independent Shareholders, to vote in favor of the ordinary resolution to be proposed at the SGM to approve 2019 Entrusted Loan Master Agreement and the Proposed Annual Caps.

The Independent Board Committee, having taken into account the advice of the Independent Financial Adviser, is of the view that the transactions contemplated under the 2019 Entrusted Loan Master Agreement and the Proposed Annual Caps are on normal commercial terms, the terms of the transactions contemplated under the 2019 Entrusted Loan Master Agreement and the Proposed Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

Accordingly, the Directors recommend the Independent Shareholders to vote in favour of the ordinary resolution in relation to the approval of the 2019 Entrusted Loan Master Agreement set out in the notice of SGM enclosed to this circular.

LETTER FROM THE BOARD

GENERAL

Your attention is also drawn to the letter from the Independent Board Committee, the letter from the Independent Financial Adviser and the additional information set out in Appendix I and Appendix II to this circular and the notice of SGM.

Yours faithfully,
By Order of the Board
Founder Holdings Limited
Cheung Shuen Lung
Chairman



FOUNDER HOLDINGS LIMITED
方正控股有限公司 *

(Incorporated in Bermuda with limited liability)

(Stock Code: 00418)

26 November 2019

To the Independent Shareholders

Dear Sir or Madam,

**ADVANCE TO AN ENTITY,
MAJOR TRANSACTION AND
CONTINUING CONNECTED TRANSACTIONS –
2019 ENTRUSTED LOAN MASTER AGREEMENT**

We refer to the circular dated 26 November 2019 issued by the Company (the “Circular”) of which this letter forms part. Terms used in this letter shall bear the same meanings as defined in the Circular unless the context otherwise requires.

We have been appointed as the Independent Board Committee to consider the 2019 Entrusted Loan Master Agreement and the Proposed Annual Caps which require approval by the Independent Shareholders and to advise the Independent Shareholders as to the fairness and reasonableness of the terms of the transactions contemplated under the 2019 Entrusted Loan Master Agreement and the Proposed Annual Caps and to recommend how the Independent Shareholders should vote at the SGM. Amasse Capital has been appointed as the Independent Financial Adviser to advise us in relation to the 2019 Entrusted Loan Master Agreement and the Proposed Annual Caps.

We wish to draw your attention to the letter from the Board, as set out on pages 4 to 15 of the Circular, and the letter from the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders containing its advice in respect of the 2019 Entrusted Loan Master Agreement and the Proposed Annual Caps, as set out on pages 18 to 31 of the Circular.

Having taken into account of the principal factors and reasons considered by the Independent Financial Adviser and its conclusion and advice, we consider that transactions contemplated under the 2019 Entrusted Loan Master Agreement and the Proposed Annual Caps are on normal commercial terms, the terms of the transactions contemplated under the 2019 Entrusted Loan Master Agreement and the Proposed Annual Caps are fair and reasonable so far as the Independent Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, we

* *For identification purposes only*

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the SGM to approve the transactions contemplated under the 2019 Entrusted Loan Master Agreement and the Proposed Annual Caps.

Yours faithfully,
Independent Board Committee

Li Fat Chung
*Independent non-executive
Director*

Wong Lam Kit Yee
*Independent non-executive
Director*

Chan Chung Kik, Lewis
*Independent non-executive
Director*

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Set out below is the full text of the letter received from Amasse Capital Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders regarding the 2019 Entrusted Loan Master Agreement and the transactions contemplated thereunder, which has been prepared for the purpose of incorporation in this circular.

AMASSE CAPITAL
寶 積 資 本

26 November 2019

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

**ADVANCE TO AN ENTITY,
MAJOR TRANSACTION AND
CONTINUING CONNECTED TRANSACTIONS –
2019 ENTRUSTED LOAN MASTER AGREEMENT**

INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders in respect of the 2019 Entrusted Loan Master Agreement and the transactions contemplated thereunder, details of which are set out in the letter from the Board contained in the circular of the Company dated 26 November 2019 (the “Circular”), of which this letter forms a part. Capitalised terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

We refer to the announcement of the Company dated 25 October 2016 in relation to the 2016 Entrusted Loan Master Agreement between the Company and Peking Founder pursuant to which the Group would, subject to certain conditions, provide short-term loans through a financial institution (designated by the parties) to Peking Founder Group. Given the 2016 Entrusted Loan Master Agreement will expire on 31 December 2019, on 30 October 2019, the Company entered into the 2019 Entrusted Loan Master Agreement with Peking Founder to continue such transactions.

As at the Latest Practicable Date, Peking Founder is a controlling shareholder of the Company indirectly holding approximately 30.60% of the issued share capital of the Company and thus a connected person of the Company for the purposes of the Listing Rules. Accordingly, the transactions contemplated under the 2019 Entrusted Loan Master Agreement will constitute continuing connected transactions for the Company pursuant to Chapter 14A of the Listing Rules.

Further, provision of the entrusted loans under the 2019 Entrusted Loan Master Agreement may also constitute (i) advance to an entity under Rule 13.13 of the Listing Rules, (ii) financial assistance provided by the Company not in the ordinary and usual course of business and a major transaction under Chapter 14 of the Listing Rules.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Since one or more of the applicable percentage ratios pursuant to Rule 14.07 of the Listing Rules for the transactions contemplated under the 2019 Entrusted Loan Master Agreement exceed(s) 25%, the transactions contemplated under the 2019 Entrusted Loan Master Agreement are subject to the reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

As Mr Cheung Shuen Lung and Professor Xiao Jian Guo are the directors of Peking Founder and therefore are deemed to have a material interest in the 2019 Entrusted Loan Master Agreement, Mr Cheung Shuen Lung and Professor Xiao Jian Guo have abstained from voting on the relevant Board's resolution approving the proposed transactions contemplated under the 2019 Entrusted Loan Master Agreement.

The Independent Board Committee comprising all the independent non-executive Directors has been formed pursuant to the Listing Rules to advise and give recommendation to the Independent Shareholders on the 2019 Entrusted Loan Master Agreement and the transactions contemplated thereunder. We have been appointed by the Company as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in this respect, and such appointment has been approved by the Independent Board Committee.

OUR INDEPENDENCE

As at the Latest Practicable Date, we did not have any relationships or interests with the Company or any other parties that could reasonably be regarded as relevant to our independence. In the last two years, we have not acted as the independent financial adviser to the Independent Board Committee and the Independent Shareholders for any transaction.

With regard to our independence from the Company, it is noted that, apart from normal professional fees paid or payable to us in connection with the current appointment as the Independent Financial Adviser, no arrangements exist whereby we had received or will receive any fees or benefits from the Company or any other parties that could reasonably be regarded as relevant to our independence.

BASIS OF OUR OPINION

In formulating our opinion to the Independent Board Committee and the Independent Shareholders, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and the information and representations as provided to us by the Directors and the management of the Company (collectively, the "Management"). We have assumed that all information and representations that have been provided by the Management, for which the Directors are solely and wholly responsible, are true and accurate at the time when they were made and continue to be so as at the Latest Practicable Date. We have also assumed that all statements of belief, opinion, expectation and intention made by the Directors in the Circular were reasonably made after due enquiry and careful consideration. We have no reason to suspect that any material facts or information have been withheld or to doubt the truth, accuracy and completeness of the information and facts contained in the Circular, or the reasonableness of the opinions expressed by the Company, its advisers and/or the Directors, which have been provided to us. Our opinion is based on the representation and confirmation of the Management that there are no undisclosed private agreements/arrangements or implied understanding with anyone concerning the 2019 Entrusted Loan

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Master Agreement and the transactions contemplated thereunder. We consider that we have taken sufficient and necessary steps on which to form a reasonable basis and an informed view for our opinion in compliance with the Listing Rules.

The Directors have collectively and individually accepted full responsibility for the accuracy of the information contained in the Circular and have confirmed, having made all reasonable enquiries, which to the best of their knowledge and belief, that the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement in the Circular or the Circular as a whole misleading. We, as the Independent Financial Adviser, take no responsibility for the contents of any part of the Circular, save and except for this letter of advice.

We consider that we have been provided with sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, carried out any independent verification of the information provided by the Management, nor have we conducted any independent in-depth investigation into the business and affairs of any members of the Group, the counter party(ies) to the 2019 Entrusted Loan Master Agreement or their respective subsidiaries or associates. We also have not considered the taxation implication on the Group or the Shareholders as a result of the 2019 Entrusted Loan Master Agreement. We have not carried out any feasibility study on the past, and forthcoming investment decision, opportunity or project undertaken or to be undertaken by the Group. Our opinion has been formed on the assumption that any analysis, estimation, anticipation, condition and assumption provided by the Group are feasible and sustainable. Our opinion shall not be construed as to give any indication to the validity, sustainability and feasibility of any past, existing and forthcoming investment decision, opportunity or project undertaken or to be undertaken by the Group.

Our opinion is necessarily based on the financial, economic, market and other conditions in effect and the information made available to us as at the Latest Practicable Date. Shareholders should note that subsequent developments (including any material change in market and economic conditions) may affect and/or change our opinion and we have no obligation to update this opinion to take into account events occurring after the Latest Practicable Date or to update, revise or reaffirm our opinion. In addition, nothing contained in this letter should be construed as a recommendation to hold, sell or buy any Shares or any other securities of the Company. We expressly disclaim any liability and/or any loss arising from or in reliance upon the whole or any part of the contents of this letter.

Lastly, where information in this letter has been extracted from published or otherwise publicly available sources, we are not obligated to conduct any independent in-depth investigation into the accuracy and completeness of those information.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

PRINCIPAL FACTORS TAKEN INTO CONSIDERATION

In formulating our opinion, we have taken into consideration the following principal factors and reasons.

1. BACKGROUND INFORMATION OF THE GROUP

1.1 Information of the Group

The Company is an investment holding company. The Group is principally engaged in software development and the provision of systems integration services relating to the media and non-media industries including financial institutions, enterprises and government departments.

1.2 Financial information of the Group

Set out below is a summary of the financial information of the Group as extracted from the annual report of the Company for the year ended 31 December 2018 and the interim reports of the Company for the six months ended 30 June 2018 and 30 June 2019 (the “2019 Interim Report”), details of which are as follows:

	For the six months ended 30 June		For the year ended 31 December	
	2019	2018	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)	(audited)	(audited)
Revenue	423,692	437,752	1,058,857	993,493
Cost of sales	(218,012)	(237,094)	(542,733)	(554,710)
Gross profit	205,680	200,658	516,124	438,783
Profit/(loss) before tax	1,428	(7,959)	88,477	91,226
Profit/(loss) for the period/year	3,390	(8,214)	87,511	89,829
Profit/(loss) for the period/year attributable to equity shareholders of the Company	3,390	(8,212)	87,336	89,836
	As at 30 June		As at 31 December	
	2019	2018	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)	(audited)	(audited)
Total assets	1,751,386	1,697,599	1,811,099	1,823,382
Total equity	1,185,170	1,118,920	1,185,701	1,139,134

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

For the six months ended 30 June 2019

The Group recorded a revenue of approximately HK\$423.7 million for the six months ended 30 June 2019 (2018: approximately HK\$437.8 million), representing a decrease of approximately 3.2% as compared to the corresponding period in 2018. The decrease in revenue was mainly due to decrease in sales of printing business.

Gross profit for the six months ended 30 June 2019 amounted to approximately HK\$205.7 million, as compared with the gross profit of approximately HK\$200.7 million for the six months ended 30 June 2018. The increase in gross profit was due to the increase in proportion of sales of software and technical services with higher gross profit margin.

The Group recorded a profit before tax for the six months ended 30 June 2019 of approximately HK\$1.4 million as compared to a loss before tax for the six months ended 30 June 2018 of approximately HK\$8.0 million.

The total assets of the Group as at 30 June 2019 amounted to approximately HK\$1,751.4 million, which represented an increase of approximately 3.2% as compared to approximately HK\$1,697.6 million as at 30 June 2018.

The total equity of the Group as at 30 June 2019 amounted to approximately HK\$1,185.2 million, which represented a decrease of approximately 5.9% as compared to approximately HK\$1,118.9 million as at 30 June 2018.

For the year ended 31 December 2018

The Group recorded a revenue of approximately HK\$1,058.9 million for the year ended 31 December 2018 (2017: approximately HK\$993.5 million), representing an increase of approximately 6.6% as compared to 2017. The increase in total revenue of the Group was mainly due to the increase in sales of software products.

Gross profit for the year ended 31 December 2018 amounted to approximately HK\$516.1 million, as compared with the gross profit of approximately HK\$438.8 million for the year ended 31 December 2017. The increase in gross profit was mainly due to increase in proportion of sales of software and technical services.

The Group recorded a profit before tax for the year ended 31 December 2018 of approximately HK\$88.5 million as compared to a profit before tax for the year ended 31 December 2017 of approximately HK\$91.2 million, representing a decrease of approximately 3.0%.

The total assets of the Group as at 31 December 2018 amounted to approximately HK\$1,811.1 million, which represented a decrease of approximately 0.7% as compared to approximately HK\$1,823.4 million as at 31 December 2017.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

The total equity of the Group as at 31 December 2018 amounted to approximately HK\$1,185.7 million, which represented an increase of approximately 4.1% as compared to approximately HK\$1,139.1 million as at 31 December 2017.

2. INFORMATION ABOUT PEKING FOUNDER

Peking Founder is a controlling shareholder of the Company indirectly holding approximately 30.60% of the issued share capital of the Company. Peking Founder is principally engaged in the securities trading and brokerage and the information technology industry, including software and system development for the publishing sector, various government bureaus and financial institutions and hardware manufacturing for personal computers, chips, circuit boards and other terminal equipment, and the healthcare and pharmaceutical industry, including hospitals, pharmaceuticals, logistics, equipment leasing and hospital management. Peking University Assets Management Company Limited* (北大資產經營有限公司), which is principally engaged in the business in relation to the acceptance for entrusted operation and management of state-owned assets, technology promotion, technical services, technical consultation, incubation of high-tech enterprises, investment management and asset management in the PRC, is the ultimate beneficial owner of Peking Founder and held 70% of shareholding interests in Peking Founder as at the Latest Practicable Date. Beijing Zhaorun Investments Management Co. Ltd.* (北京招潤投資管理有限公司), which is principally engaged in the business in relation to the investment management and investment consultation in the PRC, held 30% of shareholding interests in Peking Founder as at the Latest Practicable Date.

3. REASONS FOR AND BENEFIT OF THE 2019 ENTRUSTED LOAN MASTER AGREEMENT

The Group is principally engaged in software development and the provision of systems integration services relating to the media and non-media industries including financial institutions, enterprises and government departments.

Peking Founder Group is principally engaged in securities trading and brokerage and the information technology industry, including software and system development for the publishing sector and various government bureaus and financial institutions and hardware manufacturing for personal computers, chips, circuit boards and other terminal equipment, and the healthcare and pharmaceutical industry, including hospitals, pharmaceuticals, logistics, equipment leasing and hospital management.

According to the existing term of the 2016 Entrusted Loan Master Agreement, it will be expired on 31 December 2019. Since the continuing connected transactions shall continue, the Directors propose to seek Independent Shareholders' approval to renew the 2016 Entrusted Loan Master Agreement for a term effective from 1 January 2020 to 31 December 2022, subject to conditions set out in the Circular, in order to comply with the continuing connected transaction requirements under the Listing Rules.

As the Group is not authorized to carry out banking related businesses in the PRC, the Company has made proposals for loan arrangements in the form of entrusted loans through a financial institution designated by the Group and Peking Founder Group. As advised by the Company, the Group will provide entrusted loans under the 2019 Entrusted Loan Master Agreement to Peking Founder Group through Founder Electronics. The purpose of the 2019 Entrusted Loan Master

* For identification purposes only

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

Agreement is to provide a framework to the agreed terms and conditions governing the provision of entrusted loans to Peking Founder and each of such entrusted loan transactions to be undertaken will be subject to specific terms and conditions (including the principal loan amount, the loan period, purpose of the loan and the interest rate) under separate entrusted loan agreement.

According to the 2019 Interim Report of the Company, the Group had total cash and bank balances of HK\$501.3 million, comprising (i) cash and cash equivalents of approximately HK\$488.5 million; and (ii) pledged deposits of approximately HK\$12.8 million as at 30 June 2019 respectively. As advised by the Company, as at 30 June 2019, the Group has unutilized banking facilities available in the amount of HK\$0.6 million and HK\$77.2 million in Hong Kong and the PRC, respectively.

Furthermore, we have also obtained and reviewed the internal consolidated financial information of Founder Electronics for the two years ended 31 December 2018 and six months ended 30 June 2019 and noted that Founder Electronic recorded bank and cash balance of approximately RMB338.6 million, approximately RMB363.8 million and approximately RMB312.6 million as at 31 December 2017, 31 December 2018 and 30 June 2019, respectively. We are also advised by the Company that Founder Electronics has unutilized banking facilities of approximately RMB69.6 million as at 30 June 2019.

In relation to the past entrusted loan transactions under the 2016 Entrusted Loan Master Agreement, the maximum balance of the entrusted loans has not exceeded the existing annual caps as set out in the 2016 Entrusted Loan Master Agreement. Interest income earned by the Group from Peking Founder Group amounted to approximately HK\$25.1 million and HK\$13.7 million for the year ended 31 December 2018 and six months ended 30 June 2019, respectively. As confirmed by the Management, the entrusted loans provided to Peking Founder Group by the Group under the 2016 Entrusted Loan Master Agreement were repaid in time without any default and Peking Founder Group has maintained good repayment record for the past entrusted loan transactions under the 2016 Entrusted Loan Master Agreement.

We have obtained and reviewed three samples of separate entrusted loan agreements that were entered into between the Group, Peking Founder Group and the designated financial institution upon requests by Peking Founder pursuant to the terms and conditions of the 2016 Entrusted Loan Master Agreement. Based on the information provided by the Company, during the period from 1 January 2017 to the Latest Practicable Date, there were 12 entrusted loans provided by the Group to Peking Founder Group, each with the amount ranging from RMB3 million to RMB370 million at interest rates ranging from 6.30% to 8.00% per annum. The sources of funding for the provision of entrusted loans were (i) cash and cash equivalents of the Group; and/or (ii) banking facilities. As confirmed by the Management, the Group did not utilize its banking facilities for the past entrusted loan transactions under the 2016 Entrusted Loan Master Agreement. For the 12 entrusted loans provided to Peking Founder Group under the 2016 Entrusted Loan Master Agreement, 10 out of the 12 entrusted loans were fully settled in accordance with the terms of the 2016 Entrusted Loan Master Agreement, the remaining 2 entrusted loans are still in force as at the Latest Practicable Date.

According to the 2019 Entrusted Loan Master Agreement, the entrusted loans to be provided by the Company under the 2019 Entrusted Loan Master Agreement will be unsecured and interest-bearing at the prevailing benchmark RMB lending interest rate for loan period of six months offered by the PBOC plus 15% of such rate. As at the Latest Practicable Date, we have made reference to the official website of PBOC that the current benchmark RMB lending interest rate of

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

loan for a term within a year offered by PBOC is 4.15%. Furthermore, as advised by the Company, the Group currently enjoys a saving rate at 0.35% and a six-month call deposit rate at 1.30% which are relatively lower than the expected financial return under the 2019 Entrusted Loan Master Agreement.

As advised by the Management, the Group adopts conservative treasury policies and tightly controls its cash and risk management. We are confirmed by the Management that the Group will only utilize its cash held in the PRC and denominated in RMB to provide entrusted RMB loan to Peking Founder Group in the PRC. The entrusted loans under the 2019 Entrusted Loan Master Agreement are repayable within six months after the date of the relevant loan agreement(s). If the Group's cash held in the PRC and denominated in RMB cannot meet the demand of entrusted loan from Peking Founder Group, the Group may use its unutilized banking facilities in the PRC to sub-lend to Peking Founder Group when (i) the financial return from the provision of entrusted loans is higher than the cost of borrowing; (ii) the terms of related banking facilities can match with the terms of entrusted loans, including related draw-down date and repayment date; and (iii) there is no other alternative purpose for such unutilized banking facilities, for example, investment opportunities with higher investment return than those of entrusted loans available to the Group. As confirmed by the Management, the Group has not utilized its banking facilities for investment purposes in the past. In addition, the Group will review and consider other investment options every time before it lends to Peking Founder under the 2019 Entrusted Loan Master Agreement.

In assessing the default risk of Peking Founder Group, the Group will consider the intended use of an entrusted loan each time before granting it. We are advised by the Management that Peking Founder is a bond issuer in the PRC. According to the credit rating report issued by China Lianhe Rating Co., Ltd., an independent rating agency, on 21 June 2019, the principal credit rating of Peking Founder was maintained as "AAA", being the first class out of nine classes in this regard. Furthermore, as advised by the Management, to ensure Peking Founder Group having necessary financial capability to repay the entrusted loans, the Group will require Peking Founder Group to provide its latest audited reports and/or management accounts to the Group before entering into formal entrusted loan agreements. As a result, the Group can evaluate the latest financial performance and position of Peking Founder Group before making entrusted loans to Peking Founder Group, which allow the Group effectively control the default risks arising from the provision of entrusted loan to Peking Founder Group.

Having considered that, in particular, the financial position of Peking Founder Group, the entrusted loans provided to Peking Founder Group are in essence ultimately guaranteed by Peking Founder Group and the good repayment record of Peking Founder Group for the past entrusted loans transactions, therefore, we consider that the provision of security-free entrusted loan is fair and reasonable, and in the interest of the Company and the Independent Shareholders as a whole.

Although entering into of the 2019 Entrusted Loan Master Agreement is not conducted in the ordinary and usual course of the Group's business, however, having taken account the above, we consider that the continuing connected transaction under the 2019 Entrusted Loan Master Agreement is fair and reasonable, and in the interests of the Independent Shareholders and the Company as a whole.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

4. THE 2019 ENTRUSTED LOAN MASTER AGREEMENT

As stated in the Letter from the Board, the major terms of the 2019 Entrusted Loan Master Agreement terms are set out as below:

- (A) Separate entrusted loan agreements will be entered into among the Group, Peking Founder Group and the designated financial institution upon request by Peking Founder pursuant to the terms and conditions of the 2019 Entrusted Loan Master Agreement.
- (B) The entrusted loans to be provided by the Company under the 2019 Entrusted Loan Master Agreement will be unsecured and interest-bearing at the prevailing benchmark RMB lending interest rate for loan period of six months offered by the PBOC plus 15% of such rate. For example, if the prevailing benchmark RMB lending interest rate as quoted by the PBOC is 5% per annum, the interest rate for the entrusted loans under the 2019 Entrusted Loan Master Agreement would be 5.75% per annum. Under the 2019 Entrusted Loan Master Agreement, no collateral will be provided by Peking Founder to the Company.
- (C) The 2019 Entrusted Loan Master Agreement will, subject to the satisfaction of the conditions precedent set out in the Letter from the Board, become effective from 1 January 2020 and will expire on 31 December 2022.
- (D) The entrusted loans are repayable within six months from the date of drawing of the relevant entrusted loans unless otherwise agreed in the separate entrusted loan agreements. If Peking Founder Group fails to repay the outstanding amount under relevant entrusted loan agreements, Peking Founder Group shall be liable to pay, on a daily basis, a default interest at the rate of 0.02% of the total outstanding loan amount, until all of the principal amount, the interests together with other applicable charges and/or fees are fully repaid.
- (E) If any of the following matters arise, the entrusted loans are repayable forthwith, unless otherwise waived by the Company in writing:
 - (i) Peking Founder Group provides false balance sheets, profit and loss statements and other financial statements or provides such statements with material concealment, or refuses supervision on its use of entrusted loans;
 - (ii) The representations, warranties and undertakings made and given by Peking Founder under the 2019 Entrusted Loan Master Agreement or those made and given by the borrower pursuant to the relevant entrusted loan agreement proves to be untrue or misleading;
 - (iii) In the reasonable opinion of the Company based on relevant evidences, there has been a serious deterioration in the operating and financial position of Peking Founder or of the borrower under the relevant entrusted loan agreement;
 - (iv) Peking Founder or the borrower under the relevant entrusted loan agreement breaches of its obligations as the borrower or guarantor under any other loan agreements;

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

- (v) Peking Founder or the borrower under the relevant entrusted loan agreement fails to make a repayment arrangement or debt restructuring plan to the satisfaction of the lender and trustee bank when it is undergoing a merger, split or share reform;
- (vi) Peking Founder or the borrower under the relevant entrusted loan agreement is insolvent, dissolved, closed, revoked, suspended or deregistered;
- (vii) Peking Founder ceases to be a controlling shareholder (as defined in the Listing Rules) of the Company; or
- (viii) Peking Founder fails to perform its undertakings or other undertakings under the 2019 Entrusted Loan Master Agreement.

Furthermore, we have obtained and reviewed the terms under the 2016 Entrusted Loan Master Agreement and the 2019 Entrusted Loan Master Agreement from the Company. We note that the principal terms of the 2019 Entrusted Loan Master Agreement are materially the same as the principal terms of the 2016 Entrusted Loan Master Agreement, except for the agreed period and the respective amounts of the Proposed Annual Caps.

Based on the information provided by the Company, we understand that the Group entered into bank loan agreements with commercial banks and it shall be liable to pay, on a daily basis, a default interest of the rate with a range from 0% to 0.02% of the total outstanding loan amount. We consider that on daily basis, a default interest at the rate of 0.02% of the total outstanding loan amount to be charged under the 2019 Entrusted Loan Master Agreement is at the high end of such range and in line with the market practice.

In the view of the above, we are of the view that the terms of the 2019 Entrusted Loan Master Agreement are on normal commercial terms, fair and reasonable so far as the Company and the Independent Shareholders are concerned and are in the interests of the Company and the Independent Shareholders as a whole.

5. THE PROPOSED ANNUAL CAPS FOR THE 2019 ENTRUSTED LOAN MASTER AGREEMENT

The following table sets out (i) the historical figures of the average entrusted loans (representing the average balance of the principal and interests of the relevant entrusted loans) for each of the two years ended 31 December 2018 and six months ended 30 June 2019, (ii) historical annual caps under the 2016 Entrusted Loan Master Agreement for each of the two years ended 31 December 2018 and the year ending 31 December 2019, and (iii) the Proposed Annual Caps (representing the maximum balance of the principal and interests of the relevant entrusted loans) for each of the three years ending 31 December 2022:

	Year ended 31 December 2017 (RMB'000)	Year ended 31 December 2018 (RMB'000)	Six months ended 30 June 2019 (RMB'000)	Year ending 31 December 2019 (RMB'000)	Year ending 31 December 2020 (RMB'000)	Year ending 31 December 2021 (RMB'000)	Year ending 31 December 2022 (RMB'000)
Historical figures	375,871	376,619	370,000	N/A	N/A	N/A	N/A
Historical annual caps	405,000	405,000	N/A	405,000	N/A	N/A	N/A
Proposed annual caps	N/A	N/A	N/A	N/A	480,000	480,000	480,000

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

As set out in the Letter from the Board, as Founder Electronics will provide entrusted loans to Peking Founder Group under the 2019 Entrusted Loan Master Agreement, and the Group's relevant financial position is more solid than that of Founder Electronics, the Proposed Annual Caps are mainly determined with reference to certain financial indicators of Founder Electronics, which are more stringent. In particular, the Proposed Annual Caps are mainly determined based on average of the aggregate (i) cash and bank balance available at each month end during the six months ended 30 June 2019 (net off with restricted deposits at banks) of Founder Electronics; (ii) its monthly net profit/loss during the six months ended 30 June 2019; and (iii) the entrusted loan receivable at each month end during the six months ended 30 June 2019 (collectively the "Combined Cash and Bank Balances"). The Combined Cash and Bank Balances is used as the primary factor to determine the Proposed Annual Caps because it is an estimate of the level of cash held by Founder Electronics which can be used for entrusted loans. The Combined Cash and Bank Balances increased from RMB589.0 million as at 31 December 2018 to RMB644.4 million as at 30 June 2019, so the cash and bank balance available for entrusted loans increased accordingly. The aggregate of cash and cash equivalents and entrusted loans receivables of the Group as at 30 June 2019 and 31 December 2018 were maintained at over HK\$900 million, which is also higher than the Proposed Annual Caps. After taking into account the financial positions of Founder Electronics and the Group as mentioned above, and the fund need of Peking Founder Group, the Proposed Annual Cap for the year ending 31 December 2020 is increased to RMB480 million. On the other hand, assuming that the macro-economic environment in the PRC will remain stable, it is expected that Founder Electronics' Combined Cash and Bank Balances from 2020 to 2022 will remain stable. Therefore, the Proposed Annual Caps remain at RMB480 million for each of the three years ending 31 December 2022. The percentage of the Proposed Annual Caps to the Combined Cash and Bank Balances as at 30 June 2019 was 74.5%.

The Proposed Annual Caps remain the same at RMB480,000,000 for each of the year ending 31 December 2022 under the 2019 Entrusted Loan Master Agreement, which represents an increase of approximately 18.5% when compared with the existing annual caps of RMB405,000,000 for the year ending 31 December 2019 under the 2016 Entrusted Loan Master Agreement.

To assess the fairness and reasonableness of the Proposed Annual Caps for each of the year ending 31 December 2022 under the 2019 Entrusted Loan Master Agreement, we have reviewed the information provided by the Company and noted that (i) the annual caps for the two years ended 31 December 2018 and six months ended 30 June 2019 were almost fully utilized and the utilization rate were approximately 92.8%, approximately 93.0% and approximately 91.4% for the year ended 31 December 2017, the year ended 31 December 2018 and six months ended 30 June 2019, respectively; and (ii) as at 30 June 2019, the Group has (a) cash and bank balances of HK\$501.3 million; and (b) unutilized bank facilities of approximately HK\$0.6 million and HK\$77.2 million in Hong Kong and the PRC, respectively. Thus, the total cash and bank balances together with the Group's total unutilized banking facilities of approximately HK\$579.1 million as at 30 June 2019 are above the Proposed Annual Caps of RMB480 million for each of the three years ending 31 December 2022.

In addition, we have considered the disclosures mentioned in Appendix I of the Circular headed "Working Capital" and "Financial Effect of the 2019 Entrusted Loan Master Agreement" respectively, we concur with the Directors' view that the provision of entrusted loans to Peking Founder Group by the Group will not result in any material adverse impact on the financial position of the Group.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

We are advised by the Management that although the Group seeks for new investment opportunities in the software development and system integration business, the Group adopts prudent investment policy to avoid any significant loss. Currently, the Group has no concrete plan for material investments or capital assets. In addition, the Directors also compared those alternative utilization of the Combined Cash and Bank Balances with the option of entrusted loans to Peking Founder Group, and believed entering into the 2019 Entrusted Loan Master Agreement would be a better option to utilize such surplus fund given its stable return and low credit risk. Therefore, the percentage of the Proposed Annual Caps to the Combined Cash and Bank Balances is set at a high level to provide the Group the flexibility to maximize the utilization of the surplus fund. Nevertheless, the Group will review alternative investment options from time to time and where the Directors and management consider that there is any better investment opportunity, the Group has the option not to continue to grant entrusted loans to Peking Founder Group under the 2019 Entrusted Loan Master Agreement and pursue other investment opportunities.

Furthermore, as further advised by the Management that the Director also considered the historical entrusted loan transactions under the 2016 Entrusted Loan Master Agreement when determining the Proposed Annual Caps. During the period from 1 January 2017 to the Latest Practicable Date, there were 12 entrusted loans provided by the Group to Peking Founder Group, each with the amount ranging from RMB3 million to RMB370 million at interest rates ranging from 6.30% to 8.00% per annum and repayment period ranging from 3 to 6 months. The Proposed Annual Caps were also determined with reference to the average outstanding monthly entrusted loan receivables during the six months ended 30 June 2019 and the year ended 31 December 2018 which were RMB370 million and RMB322.5 million respectively.

Having considered that (i) the increasing entrusted loan amount provided to Peking Founder Group during the two years ended 31 December 2018 and six months ended 30 June 2019; (ii) the high utilization rates of the existing annual caps during the two years ended 31 December 2018 and six months ended 30 June 2019; and (iii) the Group's cash and bank balances together with the unutilized banking facilities as at 30 June 2019 are above the Proposed Annual Caps for each of the three years ending 31 December 2022. Thus, we are of the view that the basis of the Proposed Annual Caps for the three years ending 31 December 2022 are fair and reasonable as far as the Group and the Independent Shareholders are concerned.

6. INTERNAL CONTROL MEASURES

We discussed with the Management and are given to understand that under the 2019 Entrusted Loan Master Agreement, the Group is not mandatory to provide entrusted loans to Peking Founder Group. Founder Electronics will consider its financial position, future use of cash, alternative investment options and review the financial position and repayment history of Peking Founder Group before providing the entrusted loans upon request by Peking Founder Group, including (i) the management of Founder Electronics reviews the cash flow forecast for the next month each week to ensure that there is sufficient cashflow on hand. Founder Electronics keeps 25% of the Combined Cash and Bank Balances as the minimum cash level which was approximately RMB161.1 million as at 30 June 2019. The average monthly cash and bank balances of Founder Electronics (after granting the entrusted loans) during the six months ended 30 June 2019 and year ended 31 December 2018 were approximately RMB281.6 million and RMB259.4 million respectively which are above the minimum cash level mentioned above; (ii) the management of Founder Electronics maintains the debt-to-asset ratio (i.e. total debts divided by total assets) of Founder Electronics below 50% which is

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

comparable with that of other companies in the same or similar industries in the PRC although there is no specific limit on the amount of outstanding entrusted loan to the Group's financials. If the cash flow forecast for the next month of Founder Electronics shows that the granting of entrusted loans will increase the debt-to-asset ratio to over 50%, the management of Founder Electronics will not approve the granting of entrusted loans; and (iii) Founder Electronics considers other alternatives for utilizing the Combined Cash and Bank Balances from time to time, such as the interest rate of bank deposit and the risk-adjusted return of other wealth management products. In particular, before Founder Electronics enters into relevant agreements with Peking Founder Group according to the 2019 Entrusted Loan Master Agreement, the staff of treasury department of Founder Electronics will compare the prevailing interest rate of its bank loans to ensure the interest rate of entrusted loans to Peking Founder Group is higher than its own financing cost. Founder Electronics has not utilized its banking facilities for entrusted loans in the past and does not expect to utilize its banking facilities for entrusted loans for the 2019 Entrusted Loan Master Agreement. However, if Founder Electronics would have to finance the entrusted loans by utilizing its banking facilities (which is unlikely to happen), it will still be subject to the debt-to-asset ratio of 50% as discussed above and make sure that the return on the entrusted loans is higher than the financing cost of its outstanding bank borrowings.

Furthermore, the management of Founder Electronics will review the latest audited financial statements or management accounts of the relevant member of Peking Founder Group which is the borrower and the credit rating of Peking Founder before granting entrusted loans to such member, especially the net assets, net profits and cashflow therein, to determine the repayment ability of such member. The accounting staff of Founder Electronics will also collect public news (if any) about the borrower to check if there is any significant adverse change in the financial position of the borrower which is not notified by the borrower. As members of Peking Founder Group are in different industries, it is impractical to set a universal criterion for such determination and such determination can only be made on a case-by-case basis. The credit rating of Peking Founder will be updated every year and is public information. If the Group notices that the credit rating of Peking Founder is downgraded, the management will stop granting new entrusted loans to Peking Founder Group.

According to the 2019 Entrusted Loan Master Agreement, entrusted loans can only be used for current funding of Peking Founder Group. Under the separate entrusted loan agreement entered into among the lender, borrower and financial institution, both the financial institution and the lender have the right to monitor the usage of entrusted loans by the borrower. Founder Electronics will obtain the quarterly management accounts (including the cash flow statements) of the borrower to monitor the usage of entrusted loans.

Separate entrusted loan agreements will be approved before implementation and monitored by various internal departments of the Group, including but not limited to, the treasury department, accounting department and legal department of the Company and the management of Founder Electronics.

LETTER FROM THE INDEPENDENT FINANCIAL ADVISER

RECOMMENDATION

Having considered the above principal factors and reasons, we consider that the entering into the 2019 Entrusted Loan Master Agreement is not in the ordinary and usual course of business of the Company, but is on normal commercial terms and is fair and reasonable so far as the Independent Shareholders are concerned and is in the interests of the Company and the Independent Shareholders as a whole. Accordingly, we recommend you to vote in favour of the resolution(s) to be proposed at the SGM to approve the 2019 Entrusted Loan Master Agreement and the transaction contemplated thereunder.

Yours faithfully,
For and on behalf of
Amasse Capital Limited
Michael Lam
Managing Director

Mr. Michael Lam is a licensed person registered with the Securities and Future Commission of Hong Kong and regards as a responsible officer of Amasse Capital Limited to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activity under the SFO and has over 20 years of experience in corporate finance industry.

1. CONSOLIDATED FINANCIAL INFORMATION OF THE GROUP

The unaudited financial information of the Group for the six months ended 30 June 2019 are set out on pages 3 to 28 in the interim report 2019 of the Company, which was posted on 18 September 2019 on the Stock Exchange's website (<http://www.hkexnews.hk>).

The audited consolidated financial statements of the Group for the year ended 31 December 2016 has been set out in pages 38 to 113 of the 2016 annual report of the Company which was posted on 21 April 2017 on the Stock Exchange's website (<http://www.hkexnews.hk>).

The audited consolidated financial statements of the Group for the year ended 31 December 2017 has been set out in pages 42 to 119 of the 2017 annual report of the Company which was posted on 20 April 2018 on the Stock Exchange's website (<http://www.hkexnews.hk>).

The audited consolidated financial statements of the Group for the year ended 31 December 2018 has been set out in pages 47 to 143 of the 2018 annual report of the Company which was posted on 18 April 2019 on the Stock Exchange's website (<http://www.hkexnews.hk>).

2. INDEBTEDNESS

At the close of business on 30 September 2019, being the latest practicable date for the purpose of the indebtedness statement prior to the printing of this circular, the Group had interest-bearing bank borrowings of approximately HK\$181.6 million which comprised unsecured bank borrowings of approximately HK\$138.6 million, and secured bank loans of approximately HK\$43.0 million. The above unsecured bank borrowings were guaranteed by Peking Founder, a substantial shareholder of the Company. The secured loans were secured by pledge of certain of the Group's investment properties and land and buildings.

Save as aforesaid and apart from intra-group liabilities, the Group did not have, at the close of business on 30 September 2019, any loan capital, issued and outstanding, or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, material obligations under hire purchase contracts or finance leases, guarantees or other material contingent liabilities.

3. WORKING CAPITAL

The Directors are of the opinion that, taking into account of the Group's available financial resources including the internally generated fund, the working capital available to the Group is sufficient for the Group's requirements for at least twelve months from the date of this circular.

4. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Group was engaged in the software development and the provision of systems integration services in the media and non-media industries including financial institutions, enterprises and government departments. Given the rapid penetration of mobile internet and change in habit of reading newspapers, the traditional media business faced enormous challenge. In the coming financial year, the Group will continue to put resources on the development of innovative software for media business such as font library business, printing business and media business to meet our customers'

demand and maintain our competitiveness in those industries. The Group will continue the efforts in developing media business in order to enhance profitability and deliver returns to the Shareholders.

The management will closely monitor changes in the PRC's economy and its IT market. In addition, the Group will closely monitor the performance of each business sector to achieve effective cost control and maximize Shareholders' value.

5. FINANCIAL EFFECT OF THE 2019 ENTRUSTED LOAN MASTER AGREEMENT

Taking into account the interest income which could derive from the entrusted loans as contemplated under the 2019 Entrusted Loan Master Agreement and that the interest income from Peking Founder would cover all necessary expenses to be incurred by the Group (including the interest expense if the entrusted loans are funded by the Group's interest-bearing bank borrowings), the Company expects to have positive effect on its earnings as well as earning per share for the Shareholders.

If the Group is to fund the entrusted loans by its bank borrowings, its assets and liabilities will be increased by the same amount of such borrowings at the time when such borrowings are obtained. Save for the aforesaid, there would be no material effect on the Group's assets and liabilities as a result of the transactions contemplated under the 2019 Entrusted Loan Master Agreement.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors, having made all reasonable enquires, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Directors and chief executive

As at the Latest Practicable Date, the interests or short positions of the Directors or the chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong (as amended from time to time) (the “SFO”)) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transaction by Directors of Listed Issuers, are set out as follows:

Name of Director or chief executive	Capacity and nature of interest	Number of shares held	Percentage of the Company’s issued share capital
Shao Xing	Beneficial Owner	10,553,556	0.87

Saved as disclosed above, as at the Latest Practicable Date, none of the Directors had registered an interest or short position in the shares or underlying shares of the Company or any of its associated corporations that was required to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transaction by Directors of Listed Issuers.

(b) Substantial Shareholders

So far as is known to any Director or chief executive of the Company, as at the Latest Practicable Date, the following persons (other than Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any other member of the Group.

Long Positions:

Name	Notes	Capacity and nature of interest	Number of ordinary shares held	Percentage of the Company's issued share capital
北大資產經營有限公司 (Peking University Asset Management Company Limited*)	1	Through a controlled corporation	367,179,610	30.60
Peking Founder	2	Through a controlled corporation	367,179,610	30.60
Founder Information		Directly beneficially owned	367,179,610	30.60

Notes:

1. Peking University Asset Management Company Limited* was deemed to be interested in the 367,179,610 shares under the SFO by virtue of its interest in Peking Founder.
2. Peking Founder was deemed to be interested in the 367,179,610 shares under the SFO by virtue of its interest in Founder Information.

Save as disclosed above, as at the Latest Practicable Date, the Company had not been notified by any persons (other than Directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who was, directly or indirectly, interested in 10% or more of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company or any other member of the Group.

3. DIRECTORS' INTERESTS IN CONTRACTS AND ASSETS

As at the Latest Practicable Date, none of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Group subsisting at the Latest Practicable Date which was significant in relation to the business of the Group.

As at the Latest Practicable Date, none of the Directors had any interest, direct or indirect, in any asset which have been since 31 December 2018, the date to which the latest published audited financial statements of the Group were made up, acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group.

* For identification purposes only

4. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors was interested in any business apart from the business of the Group, which competes or is likely to compete, either directly or indirectly, with that of the Group.

5. DIRECTORS' SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors has entered or proposed to enter into a service contract with any member of the Group which is not expiring or determinable by the employer within one year without payment of compensation (other than statutory compensation).

6. MATERIAL CHANGES

The Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 December 2018, being the date to which the latest published audited financial statements of the Group were made up.

7. MATERIAL LITIGATION

As at the Latest Practicable Date, none of the members of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against any member of the Group.

8. EXPERT AND CONSENT

The following are the qualifications of the professional adviser who has given the Company opinions or provided advice referred to or contained in this circular:

Amasse Capital	a licensed corporation to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities as defined under the SFO.
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As at the Latest Practicable Date, Amasse Capital had no shareholding interest, directly or indirectly, in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for shares in any member of the Group.

As at the Latest Practicable Date, Amasse Capital did not have any interest, direct or indirect, in any assets which since 31 December 2018, the date to which the latest published audited financial statements of the Group were made up, have been acquired or disposed of by or leased to any member of the Group, or proposed to be acquired or disposed of by or leased to any member of the Group.

Amasse Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion herein of the text of its letter and/or the references to its name in the form and context in which they respectively appear.

9. MATERIAL CONTRACTS

The Group has not entered to any material contract (not being contracts entered into in the ordinary course of business) within the two years immediately preceding the Latest Practicable Date.

10. MISCELLANEOUS

The English text of this circular shall prevail over the Chinese text in case of inconsistency.

The company secretary of the Company is Ms Cheang Yee Wah Eva, *ACIS, ACS*.

The registered office of the Company is situated at Victoria Place, 5th Floor, 31 Victoria Street, Hamilton HM 10, Bermuda and its principal place of business in Hong Kong is situated at Unit 1408, 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong. The Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, is situated at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.

11. DOCUMENTS AVAILABLE FOR INSPECTION

The following documents will be available for inspection at the principal place of business of the Company in Hong Kong at Unit 1408, 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong during normal business hours on any weekday (public holidays excluded) from the date of this circular up to and including 12 December 2019, the date of the SGM:

- (i) the by-laws of the Company;
- (ii) the annual reports of the Company for the two years ended 31 December 2018;
- (iii) the interim report of the Company for the six months ended 30 June 2019;
- (iv) the 2019 Entrusted Loan Master Agreement;
- (v) the letter from the Independent Board Committee, the text of which is set out on pages 16 to 17 of this circular;
- (vi) the letter from the Independent Financial Adviser, the text of which is set out on pages 18 to 31 of this circular; and
- (vii) the letter of consent from the Independent Financial Adviser referred to in the paragraph headed "Expert and Consent" in this appendix above.

NOTICE OF SGM



FOUNDER HOLDINGS LIMITED 方正控股有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 00418)

NOTICE IS HEREBY GIVEN that a special general meeting of Founder Holdings Limited (the “Company”) will be held at 11:30 a.m. on Thursday, 12 December 2019 at Unit 1408, 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong for the purpose of considering and, if thought fit, passing the following resolution:

ORDINARY RESOLUTION

“**THAT:**

- (a) The 2019 Entrusted Loan Master Agreement (as defined in the circular of the Company dated 26 November 2019) be and is hereby approved;
- (b) The Proposed Annual Caps in relation to the transactions contemplated under the 2019 Entrusted Loan Master Agreement for the three years ending 31 December 2022 be and are hereby approved; and
- (c) Any one Director be and is hereby authorised to do all such acts or things, as he/she may in his/her absolute discretion consider necessary or desirable, to give effect to the 2019 Entrusted Loan Master Agreement and the transactions contemplated thereunder.”

By Order of the Board
Founder Holdings Limited
Cheung Shuen Lung
Chairman

Hong Kong, 26 November 2019

Notes:

1. Any shareholder entitled to attend and vote at the meeting is entitled to appoint another person as his/her proxy to attend and vote instead of him/her. A shareholder who is the holder of two or more shares may appoint more than one proxy to attend on the same occasion. A proxy need not be a shareholder of the Company but must be present in person at the meeting to represent the shareholder. Completion and return of the form of proxy will not preclude a shareholder from attending the meeting and voting in person. In such event, his/her form of proxy will be deemed to have been revoked.
2. Where there are joint holders of any share, any one of such joint holders may vote at the meeting, either personally or by proxy, in respect of such share as if he/she were solely entitled thereto, but if more than one of such joint holders be present at the meeting, that one of the said persons so present whose name stands first on the register of members of the Company in respect of such share shall alone be entitled to vote in respect thereof.

* *For identification purposes only*

NOTICE OF SGM

3. In order to be valid, the instrument appointing a proxy together with the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of that power or authority must be deposited at the principal place of business of the Company at Unit 1408, 14th Floor, Cable TV Tower, 9 Hoi Shing Road, Tsuen Wan, New Territories, Hong Kong not less than 48 hours before the time for holding the meeting or any adjournment thereof.
4. For the purpose of entitlement to attend and vote at the special general meeting to be held on Thursday, 12 December 2019, the register of members of the Company will be closed from Tuesday, 10 December 2019 to Thursday, 12 December 2019 (both days inclusive), during which period no transfer of shares of the Company will be registered. In order to qualify for attending and voting at the special general meeting, all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Monday, 9 December 2019.
5. In accordance with Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, Peking University Founder Information Industry Group Co., Ltd. is required to abstain from voting on the above ordinary resolution.
6. At the meeting (or at any adjournment thereof), the Chairman of the meeting will put the above ordinary resolution to the vote by way of a poll as required under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Bye-laws of the Company. The poll result will be published on the websites of the Company at www.founder.com.hk and the website of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk following the meeting.